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EMPIRE PETROLEUM CORP
Form 10QSB
May 12, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-QSB

(Mark One)

Quarterly Report Under Section 13 OR 15(d) of the Securities
Exchange Act of 1934

For the quarterly period ended March 31, 2005

Transition Report Under Section 13 or 15(d) of the Exchange Act

For the transition period from _____ to _____

Commission file number 001-16653

EMPIRE PETROLEUM CORPORATION

(Exact name of small business issuer as specified in its charter)

| | |
|---|---|
| DELAWARE | 73-1238709 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

8801 S. Yale, Suite 120, Tulsa, Oklahoma 74137-3575
(Address of principal executive offices)

(918) 488-8068
(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last
report)

Check whether the issuer (1) filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act during the past 12 months (or for
such shorter period that the registrant was required to file such reports),
and (2) has been subject to such filing requirements for the past 90 days.
 Yes No

State the number of shares outstanding of each of the issuer's classes of
common equity, as of the latest practicable date:

Common Stock, \$.001 Par Value - 37,830,190 shares outstanding as of
March 31, 2005.

Transitional Small Business Disclosure Format: Yes No

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EMPIRE PETROLEUM CORPORATION

INDEX TO FORM 10-QSB

| Part I. FINANCIAL INFORMATION | Page |
|---|------|
| Item 1. Financial Statements | |
| Balance Sheet at March 31, 2005 (Unaudited) | 1 |
| Statements of Operations for the three months ended March 31, 2005 and 2004 (Unaudited) | 2 |
| Statements of Cash Flows for the three months ended March 31, 2005 and 2004 (Unaudited) | 3 |
| Notes to Financial Statements | 4-6 |
| Item 2. Management's Discussion and Analysis | 6-8 |
| Item 3. Controls and Procedures | 8-9 |
| Part II. OTHER INFORMATION | |
| Item 6. Exhibits and Reports on Form 8-K | 9 |
| Signatures | 9 |

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Item 1. FINANCIAL STATEMENTS

EMPIRE PETROLEUM CORPORATION

BALANCE SHEET

| | March 31 2005 (Unaudited) |
|---|---------------------------------|
| ASSETS | |
| Current assets: | |
| Cash | \$ 952 |
| Accounts receivable (net of allowance of \$3,750) | 2,167 |
| Total current assets | 3,119 |
| Property & equipment, net of accumulated depreciation and depletion | 527,109 |
| Total Assets | \$ 530,228 |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | |
| Current liabilities: | |
| Accounts payable and accrued liabilities | \$ 338,346 |
| Accounts payable to related party | 249,501 |
| Note payable | 94,046 |
| Total current liabilities | 681,893 |
| Total liabilities | 681,893 |
| Stockholders' equity (deficit): | |
| Common stock at par value | 37,830 |
| Additional paid in capital | 8,430,635 |
| Accumulated deficit | (8,620,130) |
| Total stockholders' equity (deficit) | (151,665) |
| Total Liabilities and Stockholder's Deficit | \$ 530,228 |

See accompanying notes to financial statements.

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EMPIRE PETROLEUM CORPORATION

STATEMENTS OF OPERATIONS

(Unaudited)

| | Three Months Ended | |
|---|--------------------|--------------------|
| | March 31 | |
| | 2005 | 2004 |
| Revenue: | | |
| Petroleum sales | \$ 1,180 | \$ 34,607 |
| | <u>1,180</u> | <u>34,607</u> |
| Costs and expenses: | | |
| Production & operating | 23,888 | 22,128 |
| General & administrative | 56,704 | 57,202 |
| | <u>80,592</u> | <u>79,330</u> |
| Operating loss | <u>(79,412)</u> | <u>(44,723)</u> |
| Other (income) and expense: | | |
| Miscellaneous income | 0 | (25) |
| Interest expense | 1,725 | 1,725 |
| | <u>1,725</u> | <u>1,700</u> |
| Total other (income) and expense | <u>1,725</u> | <u>1,700</u> |
| Net loss | <u>\$ (81,137)</u> | <u>\$ (46,423)</u> |
| Net loss per common share | <u>\$.00</u> | <u>\$.00</u> |
| Weighted average number of common shares outstanding | <u>37,830,190</u> | <u>37,830,190</u> |

See accompanying notes to financial statements.

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EMPIRE PETROLEUM CORPORATION

STATEMENTS OF CASH FLOWS

(UNAUDITED)

| | Three Months Ended | |
|--|--------------------|-------------------|
| | March 31, 2005 | March 31, 2004 |
| Cash flows from operating activities: | | |
| Net loss | \$ (81,137) | \$ (46,423) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Value of services contributed by employees | 12,500 | 12,500 |
| (Increase) decrease in assets: | | |
| Accounts receivable | 7,042 | (16,643) |
| Prepaid expenses | 0 | 2,651 |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued expenses | 24,132 | 20,103 |
| Net cash used in operating activities | (37,463) | (27,812) |
| Cash flows from financing activities: | | |
| Advances from related party | 35,009 | 7,414 |
| Net cash provided by financing activities | 35,009 | 7,414 |
| Net decrease in cash | (2,454) | (20,398) |
| Cash - Beginning | 3,406 | 21,622 |
| Cash -Ending | \$ 952 | \$ 1,224 |

See accompanying notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2005

(UNAUDITED)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES:

The accompanying unaudited financial statements of Empire Petroleum Corporation (Empire, or the Company) have been prepared in accordance with United States generally accepted accounting principles for interim financial information and the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of only normal recurring adjustments) considered necessary for a fair presentation of the Company's financial position, the results of operations, and the cash flows for the interim period are included. Operating results for the interim period are not necessarily indicative of the results that may be expected for the year ending December 31, 2005.

The information contained in this Form 10-QSB should be read in conjunction with the audited financial statements and related notes for the year ended December 31, 2004 which are contained in the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission (the SEC) on March 31, 2005.

The continuation of the Company is dependent upon the ability of the Company to attain future profitable operations. These financial statements have been prepared on the basis of United States generally accepted accounting principles applicable to a company with continuing operations, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operations. Management believes the going concern assumption to be appropriate for these financial statements. If the going concern assumption were not appropriate for these financial statements, then adjustments might be necessary to adjust the carrying value of assets and liabilities and reported expenses.

The Company continues to explore and develop its oil and gas interests. The ultimate recoverability of the Company's investment in its oil and gas interests is dependent upon the existence and discovery of economically recoverable oil and gas reserves, confirmation of the Company's interest in the oil and gas interests, the ability of the Company to obtain necessary financing to further develop the interests, and upon the ability to attain future profitable production. The Company has been incurring significant losses in recent years and has a significant working capital deficiency as of March 31, 2005. The Company also recognized an impairment charge of \$6,496,614 on its oil and gas property in 2002 and an additional impairment charge of \$190,066 in the first quarter of 2003.

The Company believes it is the intention of the Company's Chief Executive Officer, or a trust controlled by him, to continue funding the Company's basic expenses through December 31, 2005, or until such time as the Company secures other sources of financing. However, there can be no assurance

-4-

that such funds will be provided by Mr. Whitehead or an affiliate of Mr. Whitehead. In 2003, the Company engaged a partner to explore its Cheyenne River Prospect, and signed an agreement to acquire a 10% interest in a block

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of acreage in the Gabbs Valley Prospect of western Nevada. In order to sustain the Company's operations on a long term basis, the Company intends to continue to look for merger opportunities and consider public or private financings.

Compensation of Officers and Employees

The Company's executive officer serves without pay or other non-equity compensation. The fair value of these services is estimated by management and is recognized as a capital contribution. For the three months ended March 31, 2005, the Company recorded \$12,500 as a capital contribution by its executive officer.

2. NOTES PAYABLE

In December 2001, the Company executed a note with Weatherford U.S., L.P. to satisfy an outstanding indebtedness for service in the drilling of the Timber Draw #1-AH well. The principal amount of this note was \$108,334 with interest payments at 10% per annum commencing on May 27, 2001, until all interest and principal amounts are paid in full. Timely payments were made in accordance with the terms of this note through March 2002. In April 2002, the "payee" of this note agreed to a revised payment schedule extending final payment of \$66,997 from April 10, 2002, until June 10, 2002. In connection with this payment schedule, an initial payment of \$10,000 was made in April 2002, however, since that time, no further payments have been made. at March 31, 2005, \$94,046 was due under this note.

3. PROPERTY AND EQUIPMENT:

At December 31, 2002, the Company's management determined that an impairment allowance of \$6,496,614 was necessary to properly value the Company's oil and gas properties bringing the net book value of the oil and gas properties to \$594,915. The basis for the impairment was the determination by the United States Bureau of Land Management (BLM) that it does not consider the Timber Draw #1-AH well economic. In other words, under the BLM's criteria for economic determination, the well will not pay out the cost incurred to drill and complete the well. The BLM also advised the Company that since it did not commence another test well prior to August 12, 2002, the Timber Draw Unit was terminated. Furthermore, a bottom hole pressure survey conducted in April 2002 indicated a limited reservoir for the well. The value was calculated using an estimated \$10 per acre market price for the leases multiplied by the Company's working interest.

In the first quarter 2003, the Company recorded an additional leasehold impairment charge of \$190,066 as a result of the assignment of the leases on 42,237 acres in the Cheyenne River Prospect (See Note 5).

On May 8, 2003, the Company entered into an agreement with O.F. Duffield (Duffield Agreement) to acquire a ten percent (10%) interest in a block of acreage in the Gabbs Valley Prospect by agreeing to issue 2,000,000 shares of the Company's Common Stock to Mr. Duffield for such 10% interest. The shares were issued in July 2003. This block of acreage in the Gabbs Valley Prospect consists of federal leases covering approximately 45,000 acres in Nye and Mineral Counties, Nevada in which Mr. Duffield has a 100% working interest. Pursuant to the Duffield Agreement, the Company

-5-

is also entitled to acquire up to a 10% interest in a block of 26,080 acres also located in the Gabbs Valley Prospect should Duffield acquire an interest in this block. The shares were valued at \$.10 per share based on the closing price of the Company's common stock on the date of issuance.

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4. CONTINGENCIES

The Company's former management (Messrs. McGrain and Jacobsen) entered into a lease agreement for office space in Canada. This office was closed after Messrs. McGrain and Jacobsen resigned as officers of the Company. This lease agreement calls for monthly lease and tax payments of approximately \$4,400 (U.S.) through April of 2006. No lease payment was made subsequent to December of 2002 and, in January of 2003, the Company was notified that the lease had been terminated without prejudice to the landlord's right to hold the Company liable for future damages related to lost rent. The Company has recorded a liability of \$158,400 in the March 31, 2005 financial statements for payments due under the lease.

5. PAYMENT OF LEASE RENTALS

On March 28, 2003, a third party paid approximately \$84,485 of the Company's lease rentals on 42,237 acres in the Cheyenne River Prospect in return for an assignment of such leases. In connection with this transaction, the Company retained an overriding royalty of 1.5% on 33,597 of the acres and a 2% overriding royalty on 8,640 of the acres.

On March 31, 2004, a third party paid approximately \$52,128 of the Company's lease rentals on 32,643 acres in the Cheyenne River Prospect in exchange for an option to drill a test well in order to earn an interest in the farmout block, which option was subject to the third party first completing a seismic survey covering 16 square miles in the Cheyenne River Prospect. This survey was completed in September of 2003. The processing and interpreting of the data from such survey was completed September 30, 2003, and earned the third party a 25% interest in the #1-AH well and prospect acreage. This third party commenced a test well in the NW/4NE/4 Section 15, Twp 39N, Rge 66W, Niobrara County, Wyoming, known as the Empire Hooligan Draw Unit #1-AH, on August 6, 2004. The well was drilled horizontally to a measured drilling depth of 9,332 feet. This well has undergone testing using different choke and orifice sizes during this reporting period and a stabilized flow rate of 15 barrels of oil per day was achieved in mid April. Remedial work was carried out on the Timber Draw #1-AH, however it did not improve this well. The producing procedure used in the past whereby the well is shut-in 30 days then produced for about 10 days will be continued.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

GENERAL TO ALL PERIODS

The Company's primary business is the exploration and development of oil and gas interests. The Company has incurred significant losses from operations, and there is no assurance that it will achieve profitability or obtain funds necessary to finance its operations. Sales revenue for all periods presented is attributable to the production of oil from the Company's Timber Draw #1-AH well located in the Eastern Powder River Basin in the State of Wyoming, otherwise known as the Cheyenne River Prospect.

-6-

For all periods presented, the Company's effective tax rate is 0%. The Company has generated net operating losses since inception, which would normally reflect a tax benefit in the statement of operations and a deferred asset on the balance sheet. However, because of the current uncertainty as to the Company's ability to achieve profitability, a valuation reserve has

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been established that offsets the amount of any tax benefit available for each period presented in the statements of operations.

THREE MONTH PERIOD ENDED MARCH 31, 2005, COMPARED TO THREE MONTH PERIOD ENDED MARCH 31, 2004.

For the three months ended March 31, 2005, sales revenue decreased \$33,427 to \$1,180, compared to \$34,607 for the same period during 2004. The decrease in sales revenue was the result of a decrease in production for the Timber Draw #1-AH, which is attributable to a limited reservoir. For the three months ended March 31, 2005, sales volume decreased 1,253 barrels to 225 barrels, compared to 1,478 barrels for the same period in 2004. The average realized per barrel oil price increased 101% from \$24.76 for the three months ended March 31, 2004 to \$49.68 for the three months ended March 31, 2005.

Production and operating expenses increased \$1,760 to \$23,888 for the three months ended March 31, 2005, from \$22,128 for the same period in 2004. This increase was primarily attributable to increased lease rental expenses on the Company's Cheyenne River and Gabbs Valley Prospects.

General and administrative expenses decreased by \$498 to \$56,704 for the three months ended March 31, 2005, from \$57,202 for the same period in 2004. Expense amounts were consistent with the prior year.

There was no depreciation expense attributable to the three months ended March 31, 2005 and 2004, because the depreciable assets were fully depreciated.

For the three months ended March 31, 2005, interest expense remained at \$1,725 which is the same as for the three months ended March 31, 2004. The Company accrued interest on the Weatherford note in both periods.

For the reasons discussed above, net loss increased \$34,714 from \$(46,423) for the three months ended March 31, 2004, to \$(81,137) for the three months ended March 31, 2005.

LIQUIDITY AND CAPITAL RESOURCES

GENERAL

As of March 31, 2005, the Company had \$952 of cash on hand. The Company's cash on hand will not be sufficient to fund its operations for any length of time. During the next twelve months, the Company expects to incur costs of approximately \$10,000 per month relating to administrative, office and other expenses. In addition, the Company's other material commitments in the next twelve months could include payments to be made and obligations that could arise as further described below.

The Company's former management (Messrs. McGrain and Jacobsen) entered into a lease agreement for office space in Canada. This office was closed after Messrs. McGrain and Jacobsen resigned as officers of the Company. This lease agreement calls for monthly lease and tax payments of approximately \$4,400

-7-

(U.S.) through April of 2006. No lease payment has been made subsequent to December of 2002 and, in January of 2003, the Company was notified that the lease had been terminated without prejudice to the landlord's right to hold the Company liable for future damages related to lost rent. As of the period ended March 31, 2005, the Company has recorded a liability of \$158,400 in its financial statements relating to the lease.

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As of March 31, 2005, the Company owes approximately \$94,046 including accrued interest to Weatherford U.S., L.P. for services rendered by Weatherford.

ADVANCES FROM RELATED PARTY

The Company has had difficulty in obtaining financing from traditional financing sources. Through March 31, 2005, the Company financed its operations primarily through advances made to the Company by the Albert E. Whitehead Living Trust, of which the Company's Chairman of the Board and Chief Executive Officer, Mr. Whitehead, is the trustee. The Company believes it is the intention of the Whitehead Trust to continue funding the Company's basic expenses through December 31, 2005, or until such time as the Company secures other sources of financing. However, there can be no assurance the Whitehead Trust will continue to fund such expenses. In order to sustain the Company's operations on a long term basis, management intends to continue to look for merger opportunities and consider public or private financings. Through the three months ended March 31, 2005, the Whitehead Trust has advanced \$35,009 to the Company.

MATERIAL RISKS

The Company has incurred significant losses from operations and there is no assurance that it will achieve profitability or obtain funds necessary to finance continued operations. For other material risks, see the Company's form 10-KSB for the period ended December 31, 2004, which was filed March 31, 2005.

FORWARD-LOOKING INFORMATION

This quarterly report on Form 10-QSB, including this section, includes certain statements that may be deemed "forward-looking statements" within the meaning of federal securities laws. All statements, other than statements of historical facts, that address activities, events or developments that the Company expects, believes or anticipates will or may occur in the future, including future sources of financing and other possible business developments, are forward-looking statements. Such statements are subject to a number of assumptions, risks and uncertainties and could be affected by a number of different factors, including the Company's failure to secure short and long term financing necessary to sustain and grow its operations, increased competition, changes in the markets in which the Company participates and the technology utilized by the Company and new legislation regarding environmental matters. These risks and other risks that could affect the Company's business are more fully described in reports it files with the Securities and Exchange Commission, including its Form 10-KSB for the fiscal year ended December 31, 2004. Actual results may vary materially from the forward-looking statements. The Company undertakes no duty to update any of the forward-looking statements in this Form 10-QSB.

Item 3. CONTROLS AND PROCEDURES

As of the end of the period covered by this report the Company carried out an evaluation under the supervision of the Company's Chief Executive Officer (and Principal Financial Officer) of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Securities

-8-

Exchange Act Rules 13a - 15(e) and 15d - 15(e). Based on this evaluation, the Company's Chief Executive Officer (and principal financial officer) has concluded that the disclosure controls and procedures as of the end of the period covered by this report are effective. During the period covered by this report there was no change in the Company's internal controls over financial reporting that has materially affected or that is reasonably likely to materially affect the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 6. Exhibits

a) Exhibits

- 31 Certification of Chief Executive Officer (and principal financial officer) pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b)(31) of Regulation S-B, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (submitted herewith).

- 32 Certification of Chief Executive Officer (and principal financial officer) pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (submitted herewith).

EMPIRE PETROLEUM CORPORATION

SIGNATURES

In accordance with the requirements of the Exchange Act, the small business issuer caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EMPIRE PETROLEUM CORPORATION

Date: May 12, 2005

By: /s/ Albert E. Whitehead

Albert E. Whitehead
Chairman/CEO

EXHIBIT INDEX

| NO. | DESCRIPTION |
|-----|---|
| 31 | Certification of Chief Executive Officer (and principal financial officer) pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b)(31) of Regulation S-B, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (submitted herewith). |

-9-

| | |
|----|---|
| 32 | Certification of Chief Executive Officer (and principal financial officer) pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (submitted herewith). |
|----|---|

EXHIBIT 31

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CERTIFICATION

I, Albert E. Whitehead, Chief Executive Officer (and principal financial officer) of Empire Petroleum Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Empire Petroleum Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of small business issuer's board of directors (or persons performing the equivalent functions):

-10-

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial

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reporting.

May 12, 2005

/s/ Albert E. Whitehead
Albert E. Whitehead,
Chief Executive Officer and
Principal Financial Officer

EXHIBIT 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Empire Petroleum Corporation (the "Company") on Form 10-QSB for the period ending March 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Albert E. Whitehead, Chief Executive Officer (and principal financial officer) of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 12, 2005

/s/ Albert E. Whitehead
Albert E. Whitehead
Chief Executive Officer and
principal financial officer